



# FX Strategy Briefing

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## Sterling Plunges on UK Election Worries

- The dollar traded mostly higher versus its counterparts in NY trading Monday, supported by the weaker-than-expected Chinese manufacturing PMI, continuing Greek budget problems and UK election worries. US personal spending rose for a fourth successive month, personal income climbed for a sixth consecutive month, and manufacturing industries expanded for a seventh straight month; thus, pointing to strengthening US economic growth. The S&P 500 rose 11.22 to 1,115.71, boosted by strong US consumption. The USD/JPY, rising for the first day in seven, advanced on increasing equity prices and Financial Services Minister Shizuka Kamei's comment that the Bank of Japan should buy government debt to fight deflation. The euro fell. EU Monetary Affairs Commissioner Olli Rehn said Greece must increase measures to reduce its budget deficit. German Chancellor Angela Merkel denied that there is an imminent Greek bailout plan. The Canadian dollar traded higher following Canada's stronger-than-expected GDP. The Australian dollar rose on Australia's strong new home sales and manufacturing PMI. The Bank of Canada is expected to maintain its key interest rate at 0.25% and the Reserve Bank of Australia may hike its benchmark rate 25 basis points to 4.00%.
- The GBP/USD plunged through important support after opinion polls, released over the weekend, revealed that the UK general election could result in the ruling Labour Party remaining the largest party but without an overall majority in the parliament. The pair was also pressured by the announcement that Prudential, the UK insurer, is buying AIG's Asian operations for \$35 billion, of which \$25 billion will be in cash. The GBP/USD fell through the important 1.50 support, but the oversold pair recovered somewhat after finding support in the 1.48 area. We expect some consolidation in the 1.48-1.50 area. However the downward trend will continue.



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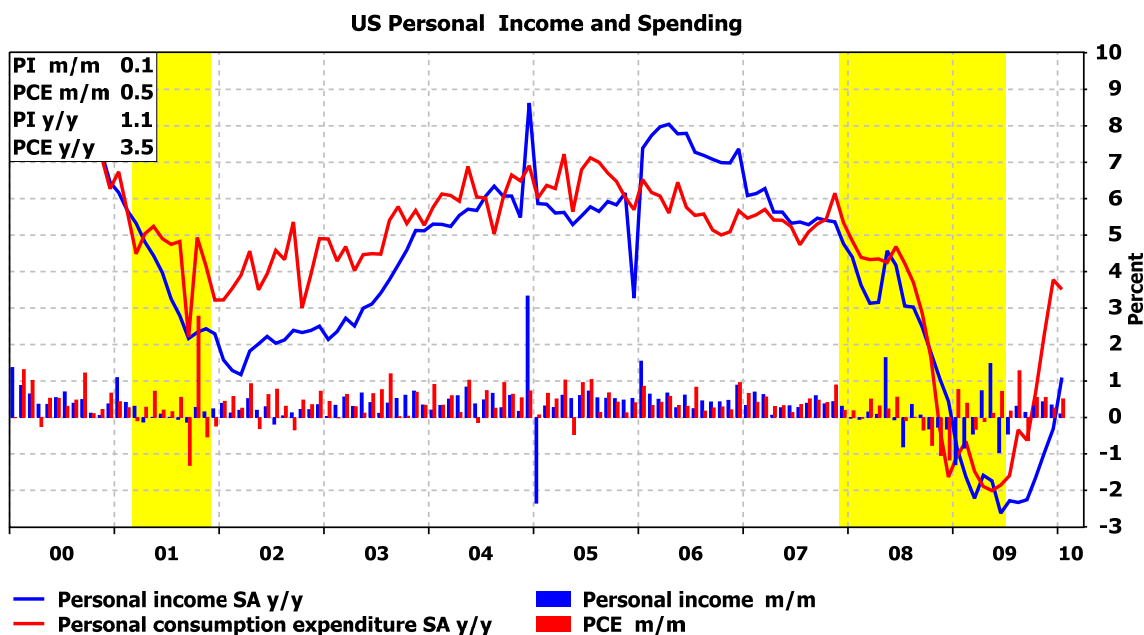
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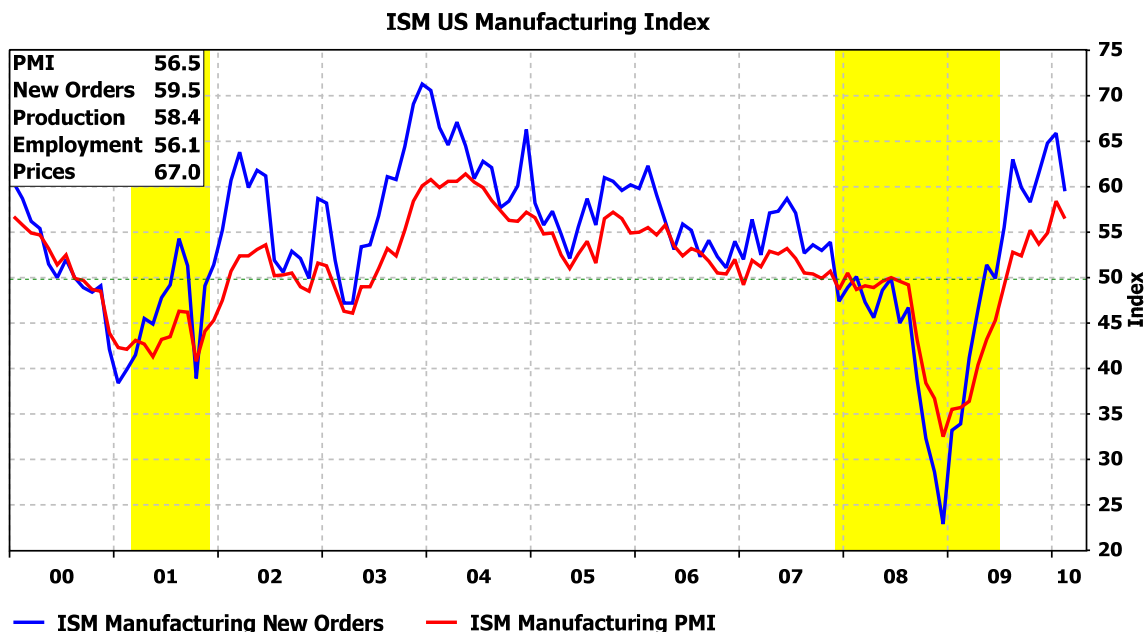
**Financial and Economic News and Comments**

**US & Canada**

- US personal income was up a less-than-expected 0.1% m/m in January, a sixth straight monthly gain, after a downwardly revised 0.3% m/m increase in December, data from the Commerce Department showed, reflecting declines in dividends and interest. Personal spending rose a more-than-expected 0.5% m/m, a fourth consecutive monthly rise, following December's upwardly revised 0.3% m/m advance; thus, contributing to GDP growth. Personal income grew 1.1% y/y in January; personal spending rose 3.5% y/y. Disposable personal income declined 0.4% m/m in January, but rose 2.1% y/y. Wages and salaries grew 0.4% m/m in January, the largest gain since April, after a 0.1% m/m increase in December. The personal consumption expenditure deflator was up 0.2% m/m and 2.1% y/y in January. The core PCE deflator, which excludes food and energy, was unchanged m/m in January and increased 1.4% y/y.



- The ISM US manufacturing index declined to a lower-than-expected 56.5 in February from a 5-year high of 58.4 in January, indicating US manufacturing expanded for a seventh consecutive month but at a slower pace, according to data from the Institute for Supply Management. The index's key components remained above the 50 growth level in February, signaling continued expansion in US manufacturing industries. The new orders index declined to 59.5 from 65.9. The production index fell to 58.4 from 66.2. The employment index increased to 56.1 from 53.3, indicating employment expanded in February to the highest level since January 2005. Inflation grew at a slower pace, with the prices paid index declining to 67.0 in February from 70.0 in January.



Source: Globicus

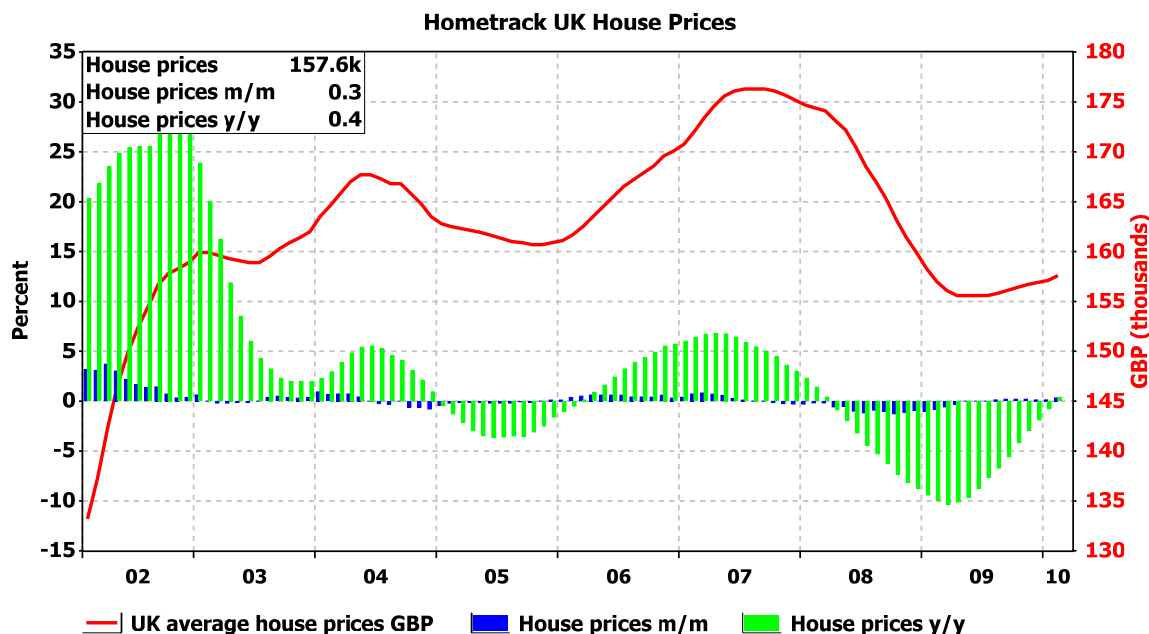
- US construction spending was down 0.6% m/m in January, a third straight decline, to a seasonally adjusted \$884.1 billion annual rate, after a 1.2% m/m decrease to a downwardly revised \$889.6 billion annual pace in December, according to figures from the Commerce Department. January construction spending fell 9.3% y/y.
- Canada's GDP expanded faster than expected at a 5.0% q/q annualized rate in Q4 2009, the second consecutive expansion in five quarters and the fastest since Q3 2000, after an upwardly revised 0.9% q/q annualized pace in Q3, GDP data from Statistics Canada showed, signaling the Canadian economy is strengthening. The Q4 GDP declined 1.2% y/y, easing from Q3's 3.3% y/y contraction. On a monthly basis, the GDP rose a more-than-expected 0.6% m/m in December, a fourth straight monthly gain and the fastest in three years, after a 0.4% m/m increase in November. December GDP was unchanged y/y.
- Canada's industrial product prices grew 0.3% m/m in January, a third consecutive month-on-month rise, after an upwardly revised 0.1% m/m increase in December, figures from Statistics Canada showed. Raw materials prices rose 3.3% m/m following December's 1.7% m/m decrease, continuing its upswing that started in January 2009. The monthly IPPI and RMPI increases were driven by a rebound in petroleum prices. The IPPI was down 0.3% y/y in January, continuing its straight year-over-year declines since March 2009, while the RMPI jumped 29.3% y/y.

**Europe**

- Eurozone unemployment increased a seasonally adjusted 38,000 to 15.683 million in January, Eurostat reported. The seasonally adjusted unemployment rate was at 9.9% in January, unchanged from December's downwardly revised 9.9% and the highest in more than 11 years, compared with 8.5% in January 2009.
- The eurozone manufacturing PMI increased to 54.2 (vs. preliminarily reported 54.1) in February from 52.4 in January, final February manufacturing PMI data from Markit Economics showed, indicating euro-area manufacturing expanded at the fastest pace since August 2007.
- The German manufacturing PMI rose to 57.2 (vs. preliminarily reported 57.1) in February from 53.7 in January indicating the manufacturing sector in Germany expanded to the highest level since July 2007, according to final February manufacturing PMI data from Markit Economics.
- Germany's import prices rose a more-than-expected 1.7% m/m in January, a fourth month-on-month consecutive rise, after a 0.5% m/m increase in December, according to data from the Federal Statistical Office. January import prices advanced 1.4% y/y, following a 1.0% y/y December decline. Meanwhile, export prices grew 0.6% m/m and 0.4% y/y in January.

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- The UK manufacturing PMI was at 56.6 in February, unchanged from January's downwardly revised 56.6, showing UK manufacturing expanded the most since October 1994, according to PMI data from Markit Economics and the Chartered Institute of Purchasing and Supply.
- UK house prices grew 0.3% m/m in February, a seventh straight month-on-month-gain and the largest since June 2007, to an average of £157,600 (\$236,242) per home, after a 0.1% m/m increase in January, Hometrack reported. February house prices rose 0.4% y/y, the first year-one-year rise since March 2008, following a 0.8% y/y January decline.

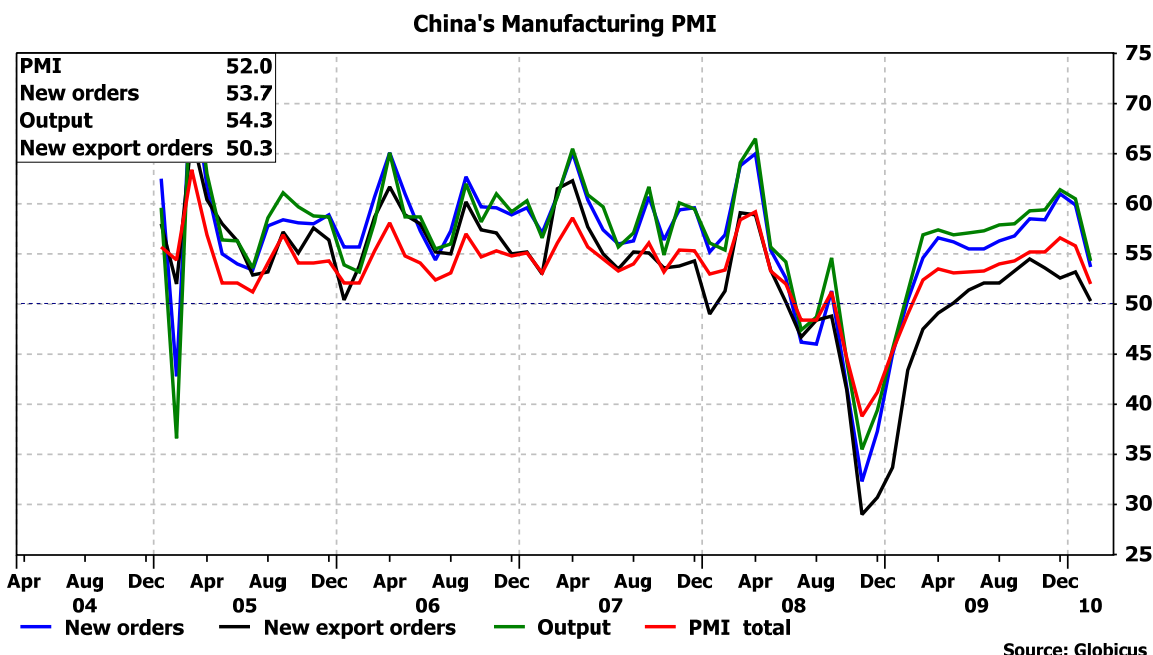


Source: Globicus

- The UK total net lending to individuals advanced by £2.0 billion (\$3.0 billion) in January after a £1.5 increase in December, according to figures from the Bank of England. Net lending secured on dwellings rose by £1.5 billion after December's £1.2 billion increase. The number of loan approvals for house purchase declined to a lower-than-expected 48,198 in January, an 8-month low, from a downwardly revised 58,223 in December. Net consumer credit increased by £0.5 billion, above December's £0.3 billion increase.
- The SVME Swiss PMI increased to a higher-than-expected 57.4 in February from 56.0 in January, indicating Switzerland's manufacturing sector expanded for a seventh straight month at a faster pace, according to a survey from the Swiss Association of Purchasing and Materials Management and Credit Suisse.

**Asia-Pacific**

- The Chinese manufacturing PMI declined to a seasonally adjusted 52.0 in February from 55.8 in January, PMI data from the Federation of Logistics and Purchasing showed, indicating China's manufacturing expanded at the slowest pace in one year. The output index fell to 54.3 in February from 60.5 in January; the new orders index slid to 53.7 from 59.9; and the new export orders decreased to 50.3 from 53.2. Despite the declines, those numbers remained above the 50 expansionary level. Meanwhile, the HSBC/Markit Chinese manufacturing PMI slipped to 55.8 in February from 57.4 January, showing the weakest manufacturing expansion in three months, HSBC Holdings Plc and Markit Economics reported.



- The Australian Industry Group-PricewaterhouseCoopers Australian performance of manufacturing index advanced to 53.8 in February from 51.0 in January, showing Australia's manufacturing expanded above the 50 level for the sixth time in seven months and at the fastest rate in more than two years, led by stronger growth in production, input deliveries and new orders, the AiG and PwC reported. The production index rose to 55.7 in February, the sixth rise in seven months, from 51.5 in January. The new orders index was unchanged at 56.0 in February, indicating a solid expansion in new orders. The supplier deliveries index advanced to 55.0 in February from 50.7 in January, indicating supplier deliveries expanded at a faster pace. The input prices index increased to 62.4 from 60.9, suggesting input prices grew for a fourth straight month in February. The employment index increased to 49.7 from 47.1, showing employment conditions were essentially stable.
- Australian new home sales rose 9.5% m/m in January, the largest gain since August, after a 4.6% m/m decline in December, according to a report by the Housing Industry Association.
- Australia's current-account deficit widened more than expected to A\$17.5 billion (\$15.7 billion) in Q4 2009 from a revised A\$14.7 billion deficit in Q3, according to figures released by the Australian Bureau of Statistics. Net exports subtracted 1.3 percentage points from Q4 GDP. Seasonally adjusted company gross operating profits grew 2.2% q/q in Q4, the first gain in five quarters, but fell 11.2% y/y. Seasonally adjusted inventories increased 0.2% q/q in Q4 but declined 2.6% y/y.

**FX Strategy Update**

	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY
<b>Primary Trend</b>	Positive	Negative	Neutral	Negative	Negative	Positive	Neutral
<b>Secondary Trend</b>	Negative	Neutral	Neutral	Positive	Neutral	Neutral	Neutral
<b>Outlook</b>	Neutral	Positive	Negative	Neutral	Neutral	Neutral	Neutral
<b>Action</b>	Sell	Buy	None	Buy	None	None	None
<b>Current</b>	1.3559	89.11	1.4989	1.0789	1.0411	0.9005	120.87
<b>Original Position</b>	1.4628	88.67	N/A	1.0340	N/A	N/A	N/A

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	EUR/USD	USD/JPY	GBP/USD	USD/CHF	USD/CAD	AUD/USD	EUR/JPY
<b>Objective</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Stop</b>	1.4060	87.30	N/A	1.0345	N/A	N/A	N/A
<b>Support</b>	1.3400	88.50	1.4800	1.0500	1.0400	0.8600	120.00
<b>Resistance</b>	1.3200	86.00	1.4500	1.0200	1.0250	0.8400	116.00
	1.3650	92.00	1.5050	1.0850	1.0800	0.9050	126.00
	1.3850	94.00	1.5250	1.1100	1.1000	0.9300	130.00

**Tuesday's Economic Calendar**

Time (EDT)	Region	Data	Period	Change	Forecast	Previous
1:45	Switzerland	GDP	Q4	q/q	0.4%	0.3%
1:45	Switzerland	GDP	Q4	y/y	-0.5%	-1.3%
4:30	UK	Construction PMI	Feb			48.6
5:00	EMU	Flash CPI	Feb	y/y	0.9%	1.0%
5:00	EMU	PPI	Jan	m/m	0.6%	0.1%
5:00	EMU	PPI	Jan	y/y	-1.1%	-2.9%
9:00	Canada	Bank of Canada interest rate decision			0.25%	0.25%
18:30	Australia	Performance of services index	Feb			47.4
19:01	UK	Nationwide consumer confidence	Feb		73	73
19:01	UK	BRC shop price index	Feb	y/y		2.3%
19:30	Australia	GDP	Q4	q/q		0.2%
19:30	Australia	GDP	Q4	y/y		0.5%
20:30	Japan	Labor cash earnings	Jan	y/y	-1.2%	-6.1%

Notes: N/A=not applicable/not available, ar=annual rate, sa=seasonally adjusted, nsa=non-seasonally adjusted, wda=working days adjusted, 3 mths=3 months, m/m=month-on-month, q/q=quarter-on-quarter, y/y=year-on-year, ytd=year-to-date, m=million, b=billion, t=trillion, unch=unchanged, a=advance, p=preliminary, r=revised, f=final, GDP=gross domestic product, CPI=consumer price index, LEI=leading economic indicators index, PPI=producer price index, PMI=purchasing managers index

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**New York, March 1, 2010, 17:00 EDT**